

**BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA**

**DOCKET NO. 2011-271-E**

In the Matter of:

Application of Duke Energy Carolinas,  
LLC for Authority to Adjust and Increase  
Its Electric Rates and Charges

)  
)  
) **SETTLEMENT TESTIMONY OF**  
) **ROBERT B. HEVERT FOR**  
) **DUKE ENERGY CAROLINAS, LLC**  
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## **I. INTRODUCTION**

1   **Q.   ARE YOU THE SAME ROBERT B. HEVERT WHO PREVIOUSLY FILED**  
2       **DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING?**

3   **A.**   Yes. I provided Direct and Rebuttal Testimony on behalf of Duke Energy Carolinas,  
4       LLC (“Duke Energy Carolinas” or the “Company”) a subsidiary of Duke Energy  
5       Corporation (“Duke Energy”).

6   **Q.   PLEASE STATE THE PURPOSE OF YOUR SETTLEMENT TESTIMONY.**

7   **A.**   The purpose of my Settlement Testimony is to address the Settlement Agreement reached  
8       between the Company, the Commission of Public Works of the City of Spartanburg  
9       South Carolina and Spartanburg Sanitary Sewer District (“Spartanburg”), and the Office  
10      of Regulatory Staff (“ORS”) with respect to the Company’s Return on Equity (“ROE”).  
11

## **II. DISCUSSION AND CONCLUSION WITH REGARD TO THE SETTLEMENT** **AGREEMENT’S ESTABLISHED ROE**

12   **Q.   PLEASE PROVIDE YOUR UNDERSTANDING OF THE ROE ESTABLISHED**  
13       **IN THE SETTLEMENT AGREEMENT.**

14   **A.**   I understand that subsequent to the filing of my Rebuttal Testimony, the Company  
15       entered into a Settlement Agreement, which calls for an ROE of 10.50 percent. I  
16       understand that the Company considers the Settlement Agreement, when viewed in its  
17       entirety, to be reasonable.

1 **Q. WHAT IS YOUR POSITION REGARDING THE LEVEL OF ROE AGREED TO**  
2 **IN THE SETTLEMENT AGREEMENT?**

3 A. While 10.50 percent is below my ROE recommendation, I recognize that it represents the  
4 end result of a negotiated process among the settling parties and in the Company's  
5 opinion, when considered in the context of the entire Settlement Agreement.

6 I note that although the agreed upon ROE is somewhat below the low end of my  
7 recommended range of results, it is within the range of analytical results presented in my  
8 Rebuttal Testimony, in particular my Discounted Cash Flow-based models. In that  
9 regard, the settlement amount is supported by the results of widely-recognized financial  
10 models, as applied to the proxy companies.<sup>1</sup>  
11

12 **Q. ARE THERE OTHER ISSUES THE PUBLIC SERVICE COMMISSION OF**  
13 **SOUTH CAROLINA (THE "COMMISSION") SHOULD CONSIDER IN**  
14 **DETERMINING THE REASONABLENESS OF THE SETTLEMENT**  
15 **AGREEMENT?**

16 A. Yes, there are. As noted in my Rebuttal Testimony, the consistency of regulation, and  
17 the extent to which regulatory decisions support utilities' financial integrity are extremely  
18 important considerations in arriving at, and assessing ROE recommendations.<sup>2</sup> In my  
19 view, the Settlement Agreement arrives at an ROE that is within the bounds of such  
20 consistency, albeit at the lower end. And while it is true that the Settlement Agreement  
21 does not represent a final decision on the part of the Commission, there is value in the  
22 comfort that investors take from such an agreement. In that important respect, to the

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<sup>1</sup> See, Rebuttal Testimony of Robert B. Hevert, at 7.

<sup>2</sup> See, Rebuttal Testimony of Robert B. Hevert, at 10.

1 extent that the Settlement Agreement supports the Company's ability to access the capital  
2 markets at reasonable rates, the 10.50 percent amount is appropriate.

3 **Q. WHAT ARE YOUR CONCLUSIONS REGARDING THE REASONABLENESS**  
4 **OF THE ROE AGREED UPON IN THE SETTLEMENT AGREEMENT?**

5 A. Although the 10.50 percent ROE included in the Settlement Agreement is below the low  
6 end of my recommended range and below my specific recommendation, it is within the  
7 range of the mean analytical results presented in my Rebuttal Testimony, in particular my  
8 Discounted Cash Flow-based models. Beyond those analytical results, the consistency of  
9 regulation, and the extent to which regulatory decisions support utilities' financial  
10 integrity are important considerations from the perspective of investors. In my view, the  
11 Settlement Agreement seeks to achieve those goals.

12 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

13 A. Yes, it does.